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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1990-1991

Comments of the Director-General on the report of the External Auditor

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Introduction

1. The Director-General, in presenting his comments on the report of the External Auditor covering the period 1990-1991 (IDB.10/4-PBC.8/9), would like to acknowledge, with thanks, the observations and constructive recommendations made in the report. As in previous bienniums, the External Auditor has conducted a detailed examination of the financial and administrative procedures of UNIDO, particularly in the areas of financial management, purchasing and contracting, electronic data-processing and evaluation of technical cooperation activities. The Director-General notes with appreciation that comments of the Administration are included in the External Auditor's report. The present document provides additional comments on the items requiring special attention under the main audit activity groupings contained in the report of the External Auditor.

I. SPECIFIC COMMENTS

Budgeting, accounting and financial reporting procedures (paras. 11-22 and 38-106)

Regular budget implementation (paras. 11 and 38-44)

2. The reduced level of unliquidated obligations as at 31 December 1991 when compared with previous fiscal periods results from a rigorous review of outstanding obligations by the Secretariat prior to the end of the 1990-1991 biennium. The Secretariat intends to maintain an ongoing review of unliquidated obligations throughout the 1992-1993 biennium.

Regular budget "other income" (paras. 12-15 and 45-59)

3. The financing of the shortfall in income from the unutilized balance of appropriations for the biennium 1986-1987 as approved in General Conference decision GC.4/Dec.15, paragraph (c)(ii) together with the relatively high level of unutilized appropriations for 1990-1991, caused mainly by the uncertain availability of cash resources, has resulted in a provisional unutilized balance as at 31 December 1991 of $5,340,096 (after adjusting for the change in the value of assessments due to exchange rate fluctuations). The net overexpenditure against appropriations foreseen in document PBC.7/15 did not arise owing to the reduced expenditure levels in the latter part of 1991.

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4. The Secretariat agrees with the observation of the External Auditor that procedures related to 'other income' should continue to be streamlined. The improvements to procedures will be facilitated by the more detailed breakdown in the programme and budgets for 1992-1993 of cost-shared activities and by changes in the allotment control procedures permitting the identification and accrual of cost reimbursable income.

5. At the time of preparing the 1990-1991 redeployment proposals to fund the additional electronic data-processing (EDP) costs contained in documents PBC.7/2 and GC.4/47, the Secretariat was conscious of the need to utilize general operating cost appropriations to the greatest extent possible for that purpose. By using general operating cost appropriations to fund most of the additional EDP costs, the redeployment of consultant, ad hoc expert meeting and travel funds from substantive departments was kept to a minimum. The increased funding requirements of the EDP programme were met mainly from reduced expenditures in other general operating costs including the deferral of some cost-shared buildings management work.

6. In the 1992-1993 budget, EDP non-staff costs and other general operating costs are clearly separated. Non-staff costs for EDP are budgeted as a separate major object of expenditure and financial performance reports will indicate expenditures under that heading. As regards other general operating costs, those expenditure items and activities which give rise to other income and, in particular, those costs related to the management of the VIC are separately identified in the budget document.

7. The improved budget control procedures introduced in 1992 will facilitate the accrual of cost-shared income related to the fiscal period in which the income is earned thereby fully complying with the principles of accrual accounting and UNIDO financial rule 110.9.

Appropriations and expenditures by major object of expenditure (paras. 16-17 and 62-66)

8. The Secretariat agrees with the recommendation (para. 16) that for future bienniums (including 1992-1993) expenditures should be grouped under major objects of expenditure for comparison with appropriated amounts. In this respect the 1992-1993 programme and budget document (GC.4/42) contains estimates presented by major object of expenditure. Financial performance reports issued for the 1992-1993 biennium will follow the format suggested in paragraph 66 and table 2 of the External Auditor's report.

Reporting to the policy-making organs on the amounts of the final regular budget expenditures by programme and by major object of expenditure (paras. 17 and 67-71)

9. Financial reports including reports on savings on the liquidation of obligations and final regular budget expenditures for a biennium will in future be prepared in line with the recommendations (para. 17) of the External Auditor. A final status of allotments for the biennium 1990-1991 including savings on unliquidated obligations will be presented to the ninth session of the Programme and Budget Committee.

General consideration on the modalities of policy-making organs budgetary control (paras. 18 and 72-78)

10. The Director-General supports the suggestion of the External Auditor (para. 18) that consideration be given to financial control of budget implementation along programmatic component lines. A change in emphasis in financial implementation control from major object of expenditure to programme resource allocations would be a major step forward towards a system of full programme budgeting and warrants further study.

UNIDO "net basis" budget presentation format (paras. 19 and 79-84)

11. The Auditor's comments on the subject of net basis budgeting (para. 19) are discussed in the addendum to the present document (PBC.8/17/Add.1-IDB.10/11/Add.1).

Accounts payable (paras. 20 and 85-90)

12. The Secretariat will give consideration to the recommendation (para. 20) by the External Auditor that a register of credit claims be established. However, the Secretariat believes that the current systems and procedures for recording accounts payable and obligations are adequate to ensure that all liabilities of the Organization are accounted for in the financial records.

Unliquidated obligations - UNDP operating fund (paras. 21 and 91-101)

13. Notwithstanding the comments of the External Auditor on the adherence to procedures on the carry-over of unliquidated obligations (para. 21), the Secretariat believes that the current procedures for review are adequate. However, in response to the Auditor's comments, certifying officers and managers will be reminded of their responsibilities to make thorough reviews of obligations and advise Financial Services of any changes required.

Financial management control statement technique (paras. 22 and 102-106)

14. The introduction of a statement of sources and application of funds (para. 22) into the financial statements for 1990-1991 (schedule 3.3 of PBC.8/9-IDB.10/4) is a positive result of previous constructive recommendations of the External Auditor.

Purchase and Contracts (paras. 25-28 and 112-132)

15. Whereas the External Auditor notes that in the 1990-1991 biennium there were still a number of cases where exceptions to formal bidding and calling for proposals (financial rule 109.19) were invoked for both contracts and purchases, at the same time, he acknowledges "... that the continued efforts made by the Contracts Committee as well as the Contracts and Purchase Sections in order to improve the procedures and the selection process of companies invited to bid and of the final selection of contractors and suppliers ..." (para. 131) and observes that "... the various requests for the waiver of international bidding were made and written justifications were provided, in conformity with the relevant Financial Rules" (para. 120). The Director-General

has noted with interest the positive reaction from the External Auditor on the efforts of the management of UNIDO to finalize new terms of reference for the Committee on Contracts to overcome many of the points raised during the audit exercise.

16. The Secretariat has also actively responded to the recommendation of the External Auditor (which he also made last year), concerning the updating of the roster of consulting engineering organizations and institutions. Provided the current pace can be maintained and funds made available for the purpose, that exercise, which will encompass some 3,500 consulting companies, is scheduled for completion by the end of 1992.

17. With regard to the roster of equipment manufacturers and vendors, the development of which was very slow for want of a unified, system-wide questionnaire, an all-out effort is now being made. In fact, the new United Nations Computer Coding System questionnaire, developed by the Inter-Agency Procurement Services Office under the direction of the Inter-Agency Procurement Working Group and with the participation of practically all the agencies of the United Nations system (among which UNIDO was one of the most active promoters and contributors) has already been addressed to some 900 companies. The questionnaires received so far have been transferred to the UNIDO database.

18. In those two activities and in the preparation of invitee lists for consulting services and bidders, as well as lists for equipment purchases, constant and careful consideration is being paid to consulting companies and equipment manufacturers and vendors from both developing and underutilized major donor countries. At this juncture, all such lists of invitees and bidders include an appropriate number of companies from both groups of countries.

19. The Industrial Development Board has already been informed and the External Auditor has acknowledged that the manual on policies, procedures, rules and regulations governing the activities of the Purchase and Contracts sections is at an advanced stage of preparation.

Technical cooperation activities (paras. 29-32 and 133-152)

20. The Secretariat takes note of the comments of the External Auditor on the programme performance evaluation reports submitted by field offices and agrees that some improvement in the timeliness of the submission and analysis of reports is desirable. Action will be taken to reduce delays in this important area.

21. The Secretariat agrees that improvements to project design are required but that the implementation of project outputs in line with plans are often influenced by factors beyond the control of the Secretariat.

22. The Secretariat welcomes the comments of the External Auditor on the quality of performance reports and tripartite in-depth evaluations as well as on the importance of the internal evaluation system as a management tool.

Electronic data-processing system (paras. 33-35 and 153-180)

23. The Secretariat notes the External Auditor's observations on the computerization programme that a provisional cost reduction in the EDP programme of $1,880,209 as a consequence of renegotiation of major contracts has been accomplished. These reductions were achieved by significant adjustments in hardware and software costs through a consolidated approach to the revision of total programmes in line with the recommendations of the consultants.

24. The Secretariat supports the view that it is most important for UNIDO staff to be fully trained and encouraged to accept and utilize the tools and applications available to provide valuable support to programmes and to improve the quality of their work.

Internal audit function (paras. 36 and 181-187)

25. The Director-General is pleased to note the remark made by the External Auditor that the Internal Audit Unit is performing relatively well and concurs with the External Auditor's recommendation that the draft mandate of the internal audit should be finalized and communicated organization-wide. The draft mandate will be finalized shortly.

26. The Director-General takes note of the External Auditor's recommendation that the Unit should be staffed with at least three Professional auditors (currently two) and two General Service assistant auditors (currently none). The Director-General recognizes the need to strengthen the Unit's capability to review the adequacy of the controls that should be built into major new systems or procedures and intends to take appropriate measures to the extent possible under the current financial and budgetary constraints.

II. ACTION REQUIRED OF THE COMMITTEE

27. The Committee may wish to take note of the Director-General's comments and of the action taken in response to the observations and the concerns expressed by the External Auditor.